

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

December 17, 2007

The Investment Committee met on Monday, December 17, 2007 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Auditorium, Sacramento, California.

The meeting was called to order at approximately 9:10 a.m. and the following members were present:

Charles Valdes, Chair
George Diehr, Vice Chair
Marjorie Berte
Robert F. Carlson
John Chiang
Rob Feckner
David Gilb
Bill Lockyer
Priya Mathur
Tony Oliveira
Kurato Shimada
Maeley Tom

Terry McGuire represented John Chiang

Investment Committee members excused: Mike Quevedo, Jr.

AGENDA ITEM 2 - APPROVAL OF NOVEMBER 2007 MEETING MINUTES

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** that the November 13, 2007 Open Session minutes be approved as presented.

AGENDA ITEM 3a – SUPPLEMENTAL OCTOBER 2007 POLICY SUBCOMMITTEE REPORT, Adoption of Policy on Supplemental Income Plans

Ms. Mathur, Policy Subcommittee Chair, reported that at the October 12, 2007 meeting, the Subcommittee reviewed the proposed Supplemental Income Plans (SIP) Policy and directed staff to make changes. The proposed policy will provide guidance and direction, define roles and responsibilities, and provide a foundation for the development of investment strategies for the SIP. The Legal Office and the Office of Enterprise Compliance were consulted during the development of this policy.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to adopt the Statement of Investment Policy for Supplemental Income Plans as presented.

AGENDA ITEM 4a – TOTAL FUND, CalPERS Total Fund Quarterly Report

Michael Schlachter and Andrew Junkin, Wilshire Associates, presented the Executive Summary of the Investment Performance of the CalPERS Total Fund, Affiliate Funds, Legislators' Fund, Annuitants Healthcare Plan, and the Supplemental Income Plans for the quarter ending September 30, 2007. Performance for each fund and each asset class was reviewed. It was noted that CalPERS generated a total fund return of 3.0% for the quarter and 17.1% for the year. The total fund composite equaled its strategic policy.

Mike Moy, Pension Consulting Alliance, provided a private equity update including remarks regarding impact of the liquidity crisis on future financing and the unresolved general partner taxation issues.

Nori Gerardo Lietz, PCA-Real Estate Advisors, provided a real estate update including comments regarding the impact of the sub-prime issue, the downward adjustments overall on the equity values of real estate, the cyclical market, and strategies to address current market issues.

The Committee accepted the information reports.

AGENDA ITEM 4b – TOTAL FUND, Strategic Asset Allocation

Russell Read, Chief Investment Officer, and Farouki Majeed, Senior Investment Officer, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Staff reviewed their analysis and recommendation to revise the Asset Allocation Policy mix that was developed following the November Asset/Liability Management Workshop. Several mix options were presented for the Committee's consideration. The mix includes the Inflation-Linked Asset Class (ILAC), which, upon allocation approval, will become a permanent program.

Some concerns were expressed regarding the status of the ILAC and proposed allocation ranges. Further discussion was deferred to closed session where three-year asset allocation implementation plan details were provided.

On **MOTION** by Mr. Lockyer, **SECONDED** and **CARRIED** to adopt the Asset Allocation Policy Mix A as shown below.

<u>YES</u>	<u>NO</u>	<u>ABSTAINED</u>
Berte	Feckner	
Carlson	Shimada	
Chiang	Tom	
Diehr		
Gilb		
Lockyer		
Mathur		
Oliveira		
Valdes		

Asset Class	Policy Mix A	
Global Equity	56%	
AIM	10%	
Total Equity	66%	
Global Fixed Income (GFI)	19%	
Inflation-Linked Assets (ILAC)	5%	
Total GFI and ILAC	24%	
Real Estate	10%	
Total	100%	
Expected Return (Arithmetic)	9.057%	
Expected Return (Geometric)	8.46%	
Standard Deviation	11.402%	
Sharpe ratio	0.543	

Action regarding the ranges relative to target was deferred to later in the meeting.

Staff will provide ILAC implementation updates as needed.

The meeting recessed from 10:40 to 10:55 a.m.

AGENDA ITEM 4c – TOTAL FUND, Inflation-Linked Asset Class – Update on Implementation

Farouki Majeed, Senior Investment Officer, presented the item. Michael Schlachter, Wilshire Associates, and Allen Emkin, Pension Consulting Alliance, were available to respond to questions from the Committee.

Staff provided a progress update regarding implementation of the Inflation-Linked Asset Class (ILAC), including the status of investment policy, organization structure, delegations, incentive plans, and implementation plan.

AGENDA ITEM 4d – TOTAL FUND, Legislative Report: AB 2941

Anne Stausboll, Chief Operating Investment Officer, Christy Wood, Senior Investment Officer, and Kelly Forrest, Investment Officer, presented the item.

Staff outlined the provisions of AB 2941, which became effective January 1, 2007, and prohibits CalPERS from investing in companies that have business operations in Sudan and that meet certain other criteria as specified in the statute. The statute requires CalPERS to file a report to the Legislature on this matter on or before January 1, 2008 and every year thereafter. A draft report and transmittal letter was presented.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the transmittal letter and annual report to the Legislature on investment holdings in companies with business operations in Sudan.

AGENDA ITEM 5 – REAL ESTATE

There were no items to report.

AGENDA ITEM 6 – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

There were no items to report.

AGENDA ITEM 7a – GLOBAL FIXED INCOME, Currency Overlay Managers Annual Review

Curtis Ishii, Senior Investment Officer, Warren Trepeta, Senior Portfolio Manager, Eric Busay, Portfolio Manager, Omid Rezania, Investment Officer, and Jonathon O'Donnell, Investment Officer, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Staff reported on the annual performance of the currency overlay managers, Pareto Partners and State Street Global Advisors, and recommended renewal of their contracts for one year.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve renewal of contracts of CalPERS' currency overlay managers, Pareto Partners and State Street Global Advisors, for a period of one year.

AGENDA ITEM 7b – GLOBAL FIXED INCOME, External High Yield Manager Request for Proposal – Fixed Income Non-Investment Grade Bonds and Leveraged Loans

Curtis Ishii, Senior Investment Officer, and Todd Smith, Portfolio Manager, presented the item.

Staff reviewed the history of the Domestic Fixed Income portfolio and reported that the number of external managers has decreased. Due to the reduction in managers and the higher possible allocation to non-investment grade corporate securities, staff believes that more external managers should be retained and requested approval of a Request for Proposal for the establishment of a spring-fed pool of active non-investment grade bond and leveraged loan managers. The current external managers will continue to provide services under their existing annual review contracts.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve a Request for Proposal for the establishment of a Spring-Fed Pool of Non-Investment Grade Bond and Leveraged Loan Managers.

The Committee also approved annual review contracts for the managers.

AGENDA ITEM 8a – GLOBAL EQUITY, Update on Emerging Managers

Christy Wood, Senior Investment Officer, Kurt Silberstein, Senior Portfolio Manager, and Mary Cottrill, Senior Portfolio Manager, presented the item. Jane Buchan, Pacific Alternative Asset Management, was available to respond to questions from the Committee.

Staff provided an update on the funding of emerging managers in the Risk Managed Absolute Strategies (RMARS) Program and the Long-Only Fund-of-Funds Program. Staff will continue to update the Committee periodically on these emerging manager programs.

AGENDA ITEM 8b – GLOBAL EQUITY, Executive Compensation Strategic Plan Update

Christy Wood, Senior Investment Officer, and Bill McGrew, Portfolio Manager, presented the item.

This agenda item marks the conclusion of CalPERS' dedicated three-year Executive Compensation Strategic Plan. Staff provided a detailed report, including accomplishments in the following areas:

- Lasting Market and Company Specific Reformations
- Disclosure and Transparency
- Engagement of Compensation Consultant Industry
- Clawback Initiatives
- Options Backdating Initiative

Going forward, staff plans to imbed two basic objectives into CalPERS' existing Corporate Governance Program framework in order to improve: 1) disclosure and transparency; and 2) the alignment of interest between executive compensation practices and the creation of shareowner value.

The Committee accepted the final report.

AGENDA ITEM 8c – GLOBAL EQUITY, Corporate Governance Update, Proxy Access

Dennis Johnson, Senior Portfolio Manager, reported regarding the development of a revised proxy access strategy plan, including the following action items:

- Continue to engage the Securities and Exchange Commission
- Seek passage of federal legislation requiring proxy access at US publicly traded companies
- File proxy access and related shareowner proposals at portfolio companies, as well as to support proxy access proposals that may be filed at other companies by other shareowners

Also, a revised Council of Institutional Investors (CII) proxy access policy will be presented at the CII spring 2008 meeting.

AGENDA ITEM 9a - SUPPLEMENTAL INCOME PLANS

Geraldine Jimenez, Division Chief, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

On June 7, 2007, a RFP was issued for a Spring-Fed Pool feature for Small-Mid Capitalization equity managers to offer actively managed funds for Supplemental Income Plans' participants for this market capitalization. Staff described the proposal review and scoring process and recommended five products for inclusion in the Spring-Fed Pool.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the following managers for inclusion in spring-fed pools:

Active Growth Small-Mid Capitalization Equity
Evergreen Investments
Putnam Investments
The Boston Company Asset Management

Active Value Small-Mid Capitalization Equity
Systematic Financial Management
The Boston Company Asset Management

The Committee also approved annual review contracts for the managers.

AGENDA ITEM 9b – SUPPLEMENTAL INCOME PLANS, General Pension Consultant Spring-Fed Pool RFP

Geraldine Jimenez, Division Chief, presented the item.

Staff believes that creating custom CalPERS target retirement date funds in the line-up will improve the quality and cost-effectiveness of the offering. Staff has determined that to develop these customized funds, the services of a consultant with experience in this specific area is needed and requested approval to issue a Request for Proposal (RFP) to refresh the General Pension Consultant Services Spring-Fed Pool to search for consultants.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to approve issuance of a Request for Proposal to add consultants to the General Pension Consultant Services Pool.

AGENDA ITEM 10a – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Consolidated Investment Activity Report

Russell Read, Chief Investment Officer, presented the item.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of October 31, 2007, was approximately \$260.6 billion and the total book value was approximately \$201.6 billion.

AGENDA ITEM 10b – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Chief Operating Investment Officer's Status Report

The Committee accepted the Chief Operating Investment Officer's Status Report.

AGENDA ITEM 10c – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Consultant Conflict of Interest Protocol Update

Matt Flynn, Division Chief, presented the item.

In accordance with the June 2005 approved CalPERS Consultant Conflict of Interest Protocol (Protocol), CalPERS investment consultants are required to disclose on an ongoing basis any circumstances that may create actual, potential, or perceived conflicts of interest. Staff monitors each consultant's compliance through its internal conflict of interest tracking process. For the fiscal year ending June 30, 2007, only one consultant filed a disclosure under the Protocol.

The Board's primary pension consultant continues to provide ongoing disclosure of its relationships to external managers as a matter of course to the Investment Committee with agenda items on external manager due diligence, selection, and reviews.

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At this point, the following recusal statement was made:

The State Controller's representative, Terry McGuire, stated "out of an abundance of caution and consistent with the state law conflict rules, I will recuse myself from Investment Committee Closed Session Agenda Item 4 [Real Estate Portfolio Sector Update] because of a potential conflict under Government Code Section 87100."

AGENDA ITEM 11 – DRAFT FEBRUARY 2008 AGENDA

The Committee accepted the proposed February 19, 2008 agenda.

AGENDA ITEM 12 – PUBLIC COMMENT

There were no comments from the public.

The meeting recessed from 11:35 a.m. to 4:00 p.m.

AGENDA ITEM 4b - TOTAL FUND, Strategic Asset Allocation (Continued)

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to adopt the Asset Class Ranges as shown in the following table, with the range relative to the target of 5% for the Inflation-Linked Asset Class to be 0%/-5%.

Asset Class	Ranges Relative to Target		
AIM	+/- 3%		
Total Equity	+/- 5%		
Total GFI and ILAC	+/- 5%		
Real Estate	+/- 3%		

The meeting was adjourned at 4:05 p.m.

The next Investment Committee meeting is scheduled for February 19, 2008 in Sacramento, California.

FRED BUENROSTRO
Chief Executive Officer